The Funding Pipeline

Imagine a huge reservoir filled primarily by local streams — but augmented by smaller tributaries with headwaters in Washington, D.C., and Sacramento — and drained by a complex network of pipelines. The pipes take a tortuous path, shooting off in all directions. There are a number of shut-off valves, and leaks sometimes occur. There seems to be a lot of liquid flowing from the tap, yet there is always a thirst for more.

This plumbing analogy can shed light on transportation finance in the Bay Area. With a seemingly endless array of funding categories, programs and associated acronyms, it is a complicated process that provides an essential service to many but is well understood by relatively few.

Transportation funding implements the goals set in the planning process.

Probably the best and certainly the most straightforward way to look at transportation funding is to view it as the means of implementing the goals embraced in the planning process. The Bay Area's long-term plan, the *Transportation 2030 Plan,* characterizes transportation spending in terms of three key categories: adequate maintenance, system efficiency and strategic expansion.

ONGOING OPERATIONS AND MAINTENANCE

About 80 percent of all transportation revenues coming to the Bay Area are needed just to operate and maintain the existing system. Buses need drivers, and roads, bridges and transit systems require sizable investments for their upkeep. In this category fall such expenses as:

- filling potholes and resurfacing streets and roads
- strengthening bridges and overpasses to withstand a major earthquake
- buying fuel for transit vehicles and paying drivers' and mechanics' salaries
- providing special transit service for elderly and disabled persons who cannot use regular transit

Some of the money that comes to the region for transportation is targeted for building new transportation facilities and cannot be used for operations and maintenance. Thus, a community might have funding to build a new rail extension, but may lack the money to operate the new service once it is online. At present, such operating and maintenance funds are in short supply. MTC's latest projections identify a $1.3 billion transit operating shortfall over the next 25 years, and an even larger $10.9 billion funding gap for the upkeep of local streets and roads.



SYSTEM EFFICIENCY

It is not enough merely to keep the present system up to snuff by continuing to operate and maintain it. To get the most out of our regional transportation investments, we also must strive to improve the operating efficiency of the system. We must take steps to maximize the passenger and goods-movement throughput of our road, highway and transit networks. To do this, MTC is deploying new approaches and technologies to:

- smooth traffic
- simplify the payment of transit fares and bridge tolls
- inform travelers of road and transit conditions
- perform other important system-efficiency services

(A sampling of these operations-oriented projects is included in the "You Already Know MTC" section, pages 4-5.)

We also must strive to improve the operating efficiency of the system.

STRATEGIC EXPANSION AND CAPITAL INVESTMENTS

After the costly maintenance, operations and system preservation needs are addressed, less than one-fifth of the funding that comes to the region is available for new transportation investments. Yet the Bay Area needs to upgrade and expand the capacity of our transit and highway systems to prepare for the anticipated influx of an additional 1.6 million residents over the next 25 years. Typically, this type of investment is labeled "capital" in transportation circles. These capital improvements — be they rail extensions, road widenings or new bus transfer stations — require years of public review, environmental analysis, planning and design before any construction begins.

As with ongoing operation and maintenance of the existing system, there are many more ideas for improvements to the transportation network than there are funds available. This is not surprising when you consider the hefty price tag that some transportation projects carry. For example, the 8.7-mile BART extension from Colma to San Francisco International Airport cost in the neighborhood of $1.5 billion. And the new, seismically safe East Span of the San Francisco-Oakland Bay Bridge is expected to cost some $5.6 billion.

WHERE DOES THE FUNDING COME FROM?

Almost all transportation sources originate with taxpayers, who pay fuel, sales or other taxes and fees. As illustrated in the revenues chart on page 23, in the Bay Area, the bulk of the moneys are generated locally, with smaller portions coming from state and federal sources. While the gasoline tax used to be considered the lifeblood of transportation finance, it is now absorbed by the cost of operating and maintaining the state highway system, leaving nothing left over for improvements. As a result, 19 counties throughout the state have adopted local sales tax measures dedicated to transportation.

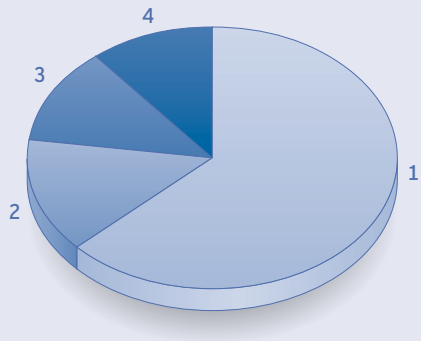
> The cost of operating and maintaining the state highway system now absorbs available gas tax revenues.

At the statewide level, the two most recent sources of new funding were approved by the voters – Proposition 42 in 2002 and Proposition 1B in 2006 (see page 27 for more on these funding sources).

The "Major Transportation Funding Sources" table on pages 24-25 lists the main funding categories and the annual dollar amounts for the Bay Area.

Note: The expenditures chart on page 23 illustrates how the Bay Area is spending available transportation funding over the next 25 years, based on revenues estimated at the time the *Transportation 2030 Plan* was adopted in 2005. Passage by California voters of Proposition 1B in 2006 provided an additional $20 billion for a variety of transportation programs statewide. The Bay Area's share is estimated to be approximately $4.5 billion.

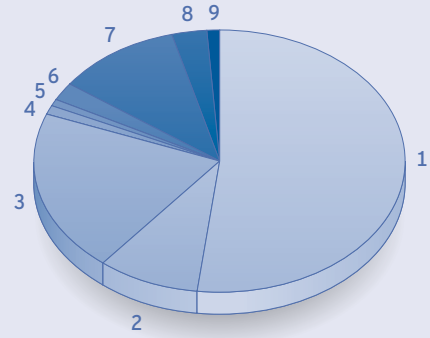
Projected Bay Area Transportation Revenues 2005–2030



		Billions of Dollars	Percent of Total
1	Local	$75	64%
2	Regional	$16	13%
3	State	$14	12%
4	Federal	$13	11%
	Total	**$118**	**100%**

The bulk of Bay Area transportation funds are generated locally.

Projected Bay Area Transportation Expenditures 2005–2030



		Billions of Dollars	Percent of Total
Adequate Maintenance			
1	Transit	$61	51%
2	Highway	$10	9%
3	Local Roads	$23	20%
System Efficiency			
4	Transit	$ 2	1%
5	Highway	$ 1	1%
6	Local Roads	$ 2	2%
Strategic Expansion			
7	Transit	$13	11%
8	Highway	$ 5	4%
9	Local Roads	$ 1	1%
	Total	**$118**	**100%**

Source: *Transportation 2030 Plan*

MAJOR TRANSPORTATION FUNDING SOURCES (Fiscal Year 2005-06)

Local Funding Categories	Approximate Annual Amount for the Bay Area (in millions)
Transit Fares	$ 570
Temporary 1/2¢ sales taxes	$ 510
Permanent 1/2¢ sales taxes for transit	$ 476
Transportation Development Act	$ 285
Gasoline Tax Subventions (fuel tax; for local street and road maintenance)	$ 210
Regional Measure 1 Bridge Tolls ($1 base toll for maintenance of bridges and voter-approved Regional Measure 1 projects)	$ 138
Regional Measure 2 Bridge Tolls ($1 toll for voter-approved transit and congestion relief projects in the bridge corridors)	$ 118
Seismic Retrofit Bridge Tolls[1] ($2 surcharge on state-owned bridges; for earthquake retrofit)	$ 118
Property Taxes (local taxes in three Bay Area counties; for AC Transit operations and BART seismic retrofit)	$ 97
Transportation Fund for Clean Air ($4 vehicle registration fee)	$ 22
State Funding Categories	
State Highway Operation and Protection Program (based on 2006 SHOPP)	$ 350
Proposition 42	Amounts cited for Proposition 42 are for FY 2008-09
State Transportation Improvement Program	$ 118
Local Streets and Roads	$ 117
State Transit Assistance	$ 50
State Transportation Improvement Program[2]	$ 172
State Transit Assistance (a portion of the sales tax on gasoline and diesel fuel; for transit capital and operations)	$ 70
Proposition 1B: Infrastructure Bond	Varies – one-time bond with proceeds distributed over 10 years

Federal Funding Categories	Approximate Annual Amount for the Bay Area (in millions)
Federal Transit Act Section 5307 – Formula Funds (federal fuel tax for purchase of buses, trains, ferries, vans and support equipment, and for preventive maintenance and ADA-required paratransit service)	$ 189
Federal Transit Act Section 5309 – Fixed Guideway (for purchase of rail cars, ferries, rail track and facilities)	$ 102
Surface Transportation Program (STP) (federal fuel tax for most capital projects, including highways, rail and bus transit, local streets, port facilities, bicycle and pedestrian projects, etc.)	$ 76
Congestion Mitigation and Air Quality Improvement Program (CMAQ) (federal fuel tax for projects to reduce vehicle emissions and traffic congestion)	$ 69
Federal Transit Act Section 5316 – Job Access and Reverse Commute Program (JARC) (projects and services designed to transport low-income and disabled persons to work; projects to move people to suburban job centers)	$ 2.5
Federal Transit Act Section 5307 – New and Small Starts (discretionary funding from general fund for rail extensions and rapid bus projects)	Discretionary – varies annually
Federal Transit Act Section 5310 – Elderly and Disabled (purchase of paratransit vans and related equipment)	Discretionary – varies annually
Bus and Bus Facility (purchase of buses and improvements to bus facilities)	Discretionary – varies annually

Notes:
1 Amount will double in fiscal year 2007-08 as a result of $1 toll increase – bringing total seismic surcharge to $2 – that took effect January 1, 2007.
2 Amount includes the contribution to the State Transportation Improvement Program from Proposition 42, listed separately.

See MTC's companion publication, *Moving Costs: A Transportation Funding Guide for the San Francisco Bay Area,* for a more complete listing of funding categories as well as which agencies make the funding decisions.

HOW DO TRANSPORTATION PROJECTS GET FUNDED?

Transportation funds are committed to projects, or "programmed," in several ways.

Transportation Improvement Program (TIP)

MTC prepares the federally required Transportation Improvement Program, or TIP, every four years with the cooperation of local governments, transit operators and Caltrans. The TIP is a comprehensive, multiyear spending plan for the region that lists every transportation project that will receive even a penny of federal funds or that is subject to a federally required action, such as a permit or review for its impact on air quality. TIPs must "conform" to federal Clean Air Act requirements (meaning the projects, taken as a whole, must help improve the region's air quality). As the primary spending plan for the region, the TIP is one of the principal means of implementing the goals and priorities identified in the Regional Transportation Plan.

State Transportation Improvement Program (STIP)

To receive state funding for capital improvements, most projects (such as a new roadway or highway lane, a new rail line or rail extension) must be included in the State Transportation Improvement Program, or STIP. Covering a five-year span and updated every two years, the STIP is a blueprint for spending certain available funds throughout California.

> Transportation improvements must be included in the TIP.

Seventy-five percent of the STIP consists of spending programs developed at the regional level throughout the state, called Regional Transportation Improvement Programs (RTIPs). Each county receives a designated amount of funding from the RTIP, known as a "county share." Congestion management agencies for each of the nine Bay Area counties forward their STIP proposals to MTC, which then reviews them for consistency with the goals of the long-range plan and ultimately compiles them into a region-wide RTIP. This is then forwarded to the California Transportation Commission (CTC) — a statewide panel appointed by the governor. In turn, the CTC must accept the RTIP in its entirety or send it back to the region for revision.

For the remaining 25 percent of STIP funding, Caltrans proposes a statewide plan for the CTC to adopt. This element is known as the Interregional Transportation Improvement Program, or ITIP, and is intended to address infrastructure needs that cross metropolitan boundaries and link the state's transportation facilities.

Proposition 42 Has Become Main Fund Source for New Projects

In recent years, funding for the STIP has been in short supply due to the increasing costs of maintaining and operating the state's aging highway system, which receives priority before gasoline tax funds are made available to the STIP. While state and federal gasoline excise (or "per gallon") tax revenues used to be the main funding source for the STIP, it is now almost entirely dependent upon its share (40 percent) of Proposition 42 funds, whose source is the sales tax on gasoline. Statewide, Proposition 42 generated approximately $1.4 billion in revenues in fiscal year 2006–07.

The first call on these funds is the Traffic Congestion Relief Program (a set of specified projects determined in state legislation enacted in 2000), which received $678 million in fiscal year 2006–07. The remainder is split according to a ratio established in statute wherein:

- 40 percent is allocated to the STIP
- 40 percent is allocated to local street and road improvements for cities and counties
- 20 percent is allocated to public transportation improvements

(Following the expiration of the Traffic Congestion Relief Program, at the end of fiscal year 2007–08, Proposition 42 funds will flow in their entirety to the categories above.)

Proposition 1B: Infrastructure Bond

Recognizing the need for greater investment in transportation, in November 2006 California voters approved Proposition 1B, a general obligation bond measure that will fund nearly $20 billion in transportation improvements.

Over the next decade, the Bay Area's share of Proposition 1B funding is expected to be about $4.5 billion. ■

Proposition 1B Statewide Summary

Category	Amount (in billions)
Goods Movement	$ 2.0
Highway Improvements	$ 5.5
Transit Expansion	$ 4.0
State Transportation Improvement Program	$ 2.0
Local Roads	$ 2.0
Transit Security	$ 1.0
Air Quality	$ 1.2
State-Local Partnership	$ 1.0
Highway Repairs	$ 0.5
Other	$ 0.7
Total	**$ 19.9**

EVOLUTION OF A PROJECT

Typical Stages in the Development and Funding of Transportation Projects

Symbol is used to indicate best public participation opportunities.

(All the stages listed on this page, however, are open to comment by the public.) MTC encourages public participation in Bay Area transportation decision-making – especially during the earlier stages of the project development process, when citizen involvement is most effective.

1 Idea

The process starts when a particular transportation need is identified or a new idea put forward. This first step can be taken by members of the public, a private business, a community group or a public agency.

2 Define Project

The project idea must be adopted by a formal sponsor – usually a government entity – which refines the initial idea and develops clear project specifications.

3 Local Review

In many cases, the project must first be presented for review to the local authorities, such as a municipal planning commission, local transit agency, city council or county board of supervisors. Some projects can be approved at the local level (e.g., street repairs) and financed with local dollars.

4 County CMA Review

To be eligible for certain state and federal funds, other (typically larger) projects must be cleared through the county-level congestion management agencies (CMAs).

5 MTC Program Review

All projects competing for state and federal funds are reviewed by MTC as part of the preparation of the Regional Transportation Plan (RTP) and Transportation Improvement Program (TIP). At MTC, public participation is welcomed at committee-level and Commission-level meetings, as well as at special public hearings.

6 State Program

Projects reviewed and approved by MTC for state funding are included in the Regional Transportation Improvement Program (RTIP), which is considered for inclusion in the State Transportation Improvement Program (STIP).

7 Federal Program

Projects of all types – bus, rail, highway, bicycle, etc. – reviewed and approved by MTC for eligibility for federal funds are included in the Transportation Improvement Program. The federal document, being the most comprehensive, also includes many of the projects listed in the state program.

8 Grant Allocation (Funding)

Projects listed in the multiyear state and federal programs are reviewed again by MTC on a project-by-project basis to assure state and federal requirements are met. Approved projects are forwarded to the state or federal authorities for the final award of funds.